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2013 GOLDEN RULE RATE PROPOSAL REVIEW DECISION Issued January 22, 2013

Introduction

The Iowa Insurance Division received an individual rate filing for Golden Rule on November 28, 2012. Golden Rule's proposal requests an average rate increase of 15% to be effective beginning April 15, 2013 for major medical policies issued to the Federation of American Consumers and Travelers (FACT). The proposed premium rate increase would affect 2,785 policies.

Rate Filing and Review Procedure

Pursuant to a 2009 Executive Order, a rate filing shall receive an independent actuarial review to determine the adequacy and appropriateness of the proposed rate. The independent review is performed simultaneously as the Division in-house review. The Division maintains a list of independent actuarial firms and selected Magnum Actuarial Group of Hartland, Wisconsin. The reports of the Division actuary and Magnum Actuarial Group are available on the Division website.

In addition, Iowa Code section 505.19 requires the Commissioner to hold a public hearing on a proposed health insurance rate increase which exceeds the average annual; health spending growth rate as published by the Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services. The current rate is 5.8%. The Consumer Advocate for the Division solicits and receives public comments on the proposed health insurance rate increase. Those comments are posted online by the Iowa Insurance Consumer Advocate.

A hearing on the proposed rate was held Saturday, January 12, 2013 at 11:00 a.m. at the Mercy College of Health Sciences in Des Moines, Iowa. Access to the hearing was made available at 3 state-wide locations via the Iowa communications Network (ICN.) Those sites were Council Bluffs, Cedar Rapids, and Spencer. (These sites were selected as areas where Golden Rule policyholders were located.)

Scott Williams, a representative of Golden Rule, spoke on behalf of the carrier. The Consumer Advocate presented public testimony on the comments she had received from consumers. There were no consumers present at the Des Moines hearing site or the three state-wide sites. The hearing lasted less than fifteen minutes. A transcript of the hearing was posted online by the Iowa Consumer Advocate.

The Commissioner reviewed the actuarial reports from both the Division actuary and Magnum Actuarial Group. In addition, the Commissioner reviewed the comments made to the Consumer Advocate. (The

comments received along with the report of the Consumer Advocate are available online.) The Commissioner also consulted with financial and actuarial staff within the Division.

Background on Premium and Healthcare Costs

The Division's Annual Report to the Iowa Governor and Iowa Legislature on Health Care Costs (Annual Report) shows that underlying health care expenditures are increasing. The most recent data shows a \$77 million rise in the health care costs from the top five health care cost increase drivers. Premiums are typically calculated based upon estimated health care claims so when health care expenditures increase so do premiums. As noted in the report for example, when the cost of health care increases but the deductible does not, the increase in health care costs is added to the calculation of the health care premium. The impact of increased health care expenditures and the increase in premiums are not in the same proportion. Other factors affect premiums such as benefit design and the population covered by a particular carrier. Due to the very small number of policies in this filing, increased costs will be spread within a limited number and at a higher percentage.

Report of the Actuaries

The actuarial reviews were conducted only on the underlying base rate proposal by Golden Rule. The Division does not regulate rate changes due to age, geographical areas, smoker and non-smoker differentials, male and female differences and differences between individual contracts and family contracts. However, carriers cannot arbitrarily change the above factor rates. Once the initial policy form is approved, all the factors will remain the same throughout the life of the policy form.

It is the purpose of the internal and independent actuarial reviews to determine if the increase proposed by Golden Rule is justified and comports with the state and federal loss ratio standards. Under the new federal law, if the insurance carrier errs in the increase which is approved by the Division, the carrier will be required to pay rebates to policyholders using a retrospective formula under federal law. Iowa has a 75% federal loss ratio standard in effect for calendar year 2012. Because Golden Rule met the loss ratio standards, they paid no rebates to policyholders.

Both the Division actuary and the Magnum Actuarial Group concluded that the rate increase proposals for Golden Rule are reasonable and justified under current state and federal guidelines. In fact, they exceed current loss ratio guidelines. The loss ratio for 2011 was 85% and the year ending July 2012 was 91%. (For rate filings effective in 2014, the loss ratio standard in Iowa will be 80%.)

Consumer Concerns and Issues

A total of seven comments were received by the Consumer Advocate prior to the public hearing. The comments were not numerous enough to aggregate yet there were some common themes. All the comments received expressed concerns about affordability. Insurance premiums are a significant portion of the policyholders' budget. Based upon policyholders' own experiences, they raised concerns about underlying cost increases and access of services.

Future Premium Rate Issues and Cost Concerns

Additional changes are coming in the area of health care reform that will impact insurance premium rates. Beginning in 2014, insurers will not be able to decline coverage to applicants with pre-existing conditions. Insurers will be required to provide plans with minimum essential health benefits that may be greater than benefits provided today under certain plans. Gender and health risks will be eliminated as rating factors. There will be limits on age rating. Plans will be required to offer coverage with minimum required cost sharing. To meet this, some plans will need to reduce the member out-of-pocket liabilities, which will increase premiums.

As we have noted in previous rate decisions, the Division believes that many consumers will continue to see rate increases. Depending upon how policyholders are pooled for rating purposes, some consumers could see large rate increases while others may see some rate decreases. A major factor in determining these premium levels will be the underlying cost of the health care delivery system.

Decision

The Commissioner has reviewed the testimony of policyholders, studied both actuarial reports and consulted with various Division staff regarding the Golden Rule rate increase proposal. The balancing of the needs of Iowa consumers and the solvency of an insurance carrier must be weighed carefully.

There is no evidence that the proposed rate filings are discriminatory or excessive under Iowa statute. The Commissioner therefore approves the proposed individual rate increases filed by Golden Rule for implementation on April 15, 2013.

Date Tuesday, January 22, 2013.

Susan E. Voss
Commissioner
Iowa Insurance Division